

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(UPS PROPOSALS ONE, TWO, AND THREE)

Docket No. RM2016-2

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-3 OF CHAIRMAN'S
INFORMATION REQUEST NO. 7
(March 2, 2016)**

The United States Postal Service hereby provides its responses to Questions 1-3 of Chairman's Information Request No. 7, issued February 24, 2016. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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March 2, 2016

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1. Please refer to UPS's Exhibit A.¹ UPS describes Column [1] as displaying the categorization or treatment of cost components by Dr. Bradley in Library Reference USPS–RM2016–2/NP1.² UPS describes Columns [2] and [3] as displaying the categorization or treatment used by the Postal Service in library references USPS–FY14–NP10³ and USPS–FY15–NP10,⁴ filed in Docket Nos. ACR2014 and ACR2015, respectively.
 - a. Please confirm that Exhibit A is accurate.
 - b. If not confirmed, please identify the inaccuracies and provide corrections as needed.

RESPONSE:

a. & b. Insofar as it goes, the table in Exhibit A is correct. However, note that the table in Exhibit A does not include components which have no attributable cost and thus do not contribute to inframarginal cost.

¹ Motion of United Parcel Service, Inc. for Issuance of Information Request to United States Postal Service, February 19, 2016, Excel file "Exhibit A_ChIR.xlsx" (Exhibit A).

² Library Reference USPS-RM2016-2/NP1, January 27, 2016.

³ Docket No. ACR2014, Library Reference USPS-FY14-NP10, December 29, 2014.

⁴ Docket No. ACR2015, Library Reference USPS-FY15-NP10, December 29, 2015.

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2. Please again refer to Exhibit A referenced in question 1, which identifies ten cost components where the categorization or treatment of a cost component in Dr. Bradley's calculations provided in USPS–RM2016–2/NP1 differs from that used in USPS–FY14–NP10.
- a. Please explain the rationale for each such departure.
 - i. Component 48
 - ii. Component 126
 - iii. Component 168
 - iv. Component 195
 - v. Component 202
 - vi. Component 531
 - vii. Component 1697
 - viii. Component 1726
 - ix. Component 1727
 - x. Component 1735
 - b. If the answer to question 1 reveals any additional cost components whose categorization or treatment differs between Dr. Bradley's calculations in USPS–RM2016–2/NP1 and those provided by the Postal Service in Docket No. ACR2014, please explain the reasons for these departures.

RESPONSE:

- a.
 - i. This is the component for C/S 7 Product Specific Delivery Activities. The pooled treatment for Cost Segment 7 Product Specific Delivery Activities, used in RM2016-2/NP1 results in the same inframarginal cost as the component-level treatment used in USPS-FY14-NP10. The reason for the pooled treatment in USPS-RM2016-2/NP1 is because the costs for SPR Product Specific Delivery Activities and LTR Product Specific

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Delivery Activities are available for use in the distribution keys for Delivery Activities Support and In-Office Support Other Delivery Activities. This is a correction made to conform to CRA methodology and should have been in USPS-FY14-NP10. Please also see the response to 2. vii below.

- ii. The methodology for Retail Credit Card Fees in Cost Segment 13 was changed in RM2015-4, Proposal Eleven, Order No. 2350, and the change in the treatment in Exhibit A reflects the current methodology. This change applied to FY 2014 CRA costs and should have been made in USPS-FY14-NP10. It was corrected for USPS-RM2016-2/NP1.
- iii. There was a small amount of product specific cost in this component that should have been included in USPS-FY14-NP10. It was corrected for USPS-RM2016-2/NP1.
- iv. There was a small amount of product specific cost in this component that should have been included in USPS-FY14-NP10. It was corrected for USPS-RM2016-2/NP1.
- v. The treatment for Annuitant Health Benefits – Earned (Current) was changed for USPS-RM2016-2/NP1 in order to exclude inframarginal cost for this component, since this was excluded by Dr. Neels in UPS-RM2016-2/NP1.
- vi. The treatment for Workers' Compensation Current Year was changed for USPS-RM2016-2/NP1 in order to exclude inframarginal cost for this component, since this was excluded by Dr. Neels in UPS-RM2016-2/NP1.

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- vii. This is the cost pool for In-Office Support Other Delivery Activities SPR. Distribution key 1964 includes cost pool 1726, SPR Product Specific Delivery Activities. Distribution key 578, which was used in USPS-FY14-NP10, does not include cost pool 1726. The correct CRA treatment is to include SPR Product Specific Delivery Activities in the calculation of In-Office Support Other Delivery Activities SPR and SPR Delivery Activities Support. The same treatment should apply to analogous components for Letter Routes. This error was uncovered during review of the incremental cost model control table, and was corrected for USPS-RM2016-2/NP2.
- viii. This is the cost pool for SPR Product Specific Delivery Activities. Component 48, Product Specific Delivery Activities, is separated into SPR and LTR portions so that distribution key 1964 could correctly include the SPR portion. See the response to vii above.
- ix. This is the cost pool for LTR Product Specific Delivery Activities. Component 48, Product Specific Delivery Activities, has been separated into SPR and LTR portions so that distribution key 1960 could correctly include the LTR portion. In USPS-FY14-NP10, distribution key 1960 did not include this cost pool. See the response to vii above.
- x. This is the cost pool for SPR Delivery Activities Support, which should include SPR Product Specific Delivery Activities in its distribution key. Using DK 1964 corrects this. See the response to vii above.

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b. Not Applicable.

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3. Please refer to Docket No. ACR2014, Library Reference USPS–FY14–NP10.
- a. The library reference contains an incremental cost control file, “IC2014.cntl.xls.” Please confirm that in the calculations for the output provided in USPS–RM2016–2/NP1, Dr. Bradley used the same version of the incremental cost control file included in USPS–FY14–NP10. If not confirmed, please provide the incremental cost control file used by Dr. Bradley in the calculations for the output provided in USPS–RM2016–2/NP1.
 - b. This library reference also contains a cost pools file, “CostPoolsFY2014.xls.” Please confirm that in the calculations for the output provided in USPS–RM2016–2/NP1, Dr. Bradley used the same version of the input file as provided in USPS–FY14–NP10. If not confirmed, please provide the cost pools file used by Dr. Bradley.

RESPONSE:

- a. Not confirmed. The incremental cost control file used in the calculations presented in USPS-RM2016-2/NP1 is provided as an attachment to this response. The attachment is an Excel file named ChIR7.Q3.IC14.cntl.
- b. Not confirmed. The cost pools file used in the calculations presented in USPS-RM2016-2/NP1 is provided in USPS-RM2016-2/NP2. This version explicitly shows the cost pools containing institutional cost for Window Service, labeled with cost pool number 1692. The cost pools file also contains the inputs for LTR and SPR Product Specific Delivery Activities, in cost pool numbers 1726 and 1727, respectively.